

Annual Report 2001



2001

For more than 200 years, the United States Postal Service has kept the American people connected by mail, delivering to more than 137 million households across our great nation six days a week.

Our work is a proud, time-honored tradition. And, though we find ourselves facing a trying time in our nation's history, our resolve is unwavering. We will continue to deliver America's mail.

Through adversity in the form of unprecedented acts of terrorism, the 800,000 men and women of the United States Postal Service remain committed to keeping our nation's fundamental communications network delivering.

We, the United States Postal Service, stand united with our employees, with customers, with legislators, the mailing industry and with American businesses.

We stand united with America in the cause to hold our great nation, and our way of life, together.

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MEDAL of FREEDOM



...TO THE FLAG...

how to read our **ANNUAL REPORT**

WELCOME TO OUR WORLD

Inside the pages of this United States Postal Service 2001 Annual Report, we will tell you a story of unity. We'll explain how we at the Postal Service — all 800,000 of us — are focused on developing people, improving service, managing costs, growing revenue and pursuing reform. And we will show you how that focus is helping to ensure a more efficient and highly responsive Postal Service — one positioned to continue fulfilling our mandate of universal service to the people of America.

We've worked to make sure this report contains the facts that you need to know about your Postal Service.

You'll find our financial highlights below. Page 3 contains a summary of the year's business and operational highlights. Postmaster General and Chief Executive Officer John E. Potter, and Robert F. Rider, Board of Governors Chairman, have written a letter to America on page 4. In it, they talk

about our efforts to continue our long tradition of trust, innovation and service. They address our accomplishments and challenges and outline our plans for the future. The pages that follow contain a thorough review of our performance through a very challenging period. Then page 15 begins an in-depth discussion of our finances.

Throughout 2001, the Postal Service has continued to build on a solid record of accomplishment. We kept service at record heights, achieved greater levels of efficiency and kept pace with the needs of a growing nation. Despite the limitations of a legislative charter more than three decades old, the Postal Service carries almost half of the world's mail — and does this huge job in a business-like manner — without operational subsidies.

This is the story of your Postal Service in 2001.

FINANCIAL HIGHLIGHTS

(dollars in millions)	YEARS ENDED SEPTEMBER 30			PERCENTAGE CHANGE FROM PRECEDING YEAR		
	2001	2000	1999	2001	2000	1999
Operating revenue	\$65,834	\$64,540	\$62,726	2.0%	2.9%	4.4%
Operating expenses	65,640	62,992	60,642	4.2%	3.9%	4.9%
Operating income	194	1,548	2,084			
Operating margin	0.3%	2.4%	3.3%			
Net (loss) income	\$(1,680)	\$(199)	\$363			
Capital cash outlays	\$2,961	\$3,337	\$3,917	-11.3%	-14.8%	28.2%
Total debt	11,315	9,316	6,917	21.5%	34.7%	7.7%
Interest expense on borrowings	306	220	158	39.1%	39.2%	-5.4%
Capital contributions of U.S. government	\$3,034	\$3,034	\$3,034			
Accumulated losses at end of year*	(5,360)	(3,680)	(3,481)			
Total net capital deficiency	\$(2,326)	\$(646)	\$(447)			
Number of career employees	775,903	787,538	797,795	-1.5%	-1.3%	0.7%
Mail volume (millions of pieces)	207,463	207,882	201,644	-0.2%	3.1%	2.4%
New addresses served	1,736,256	1,893,377	1,459,261			

* Losses accumulated since the Postal Service was created in 1971 with mandate to set rates such that revenue covers costs.

2001 HIGHLIGHTS

MAKING THE GRADE. We scored high marks on *Government Executive Magazine's* Federal Performance Report, earning A's in managing for results, financial management and physical assets management.

GIVING CONSUMERS GREATER CHOICE. Our groundbreaking business alliance with FedEx provided the air transportation network we needed to meet customer requirements for more reliable service and reduced costs. The agreement has doubled the market reach of Express Mail Next Day®, and Priority Mail Two Day™ services.

PRIORITIZING COMMITMENTS. We restructured our organization to bring more focus to priorities and the core business. Changes in our headquarters and field organization are enabling us to better serve the American people by establishing a leaner management structure.

IMPROVING OPERATIONS. Technology upgrades that track mail and enhance accounting and timekeeping systems enabled us to provide near real-time mail flow information to large mailers and postal operations. Mailers can track their mail as it flows through our automated mailstream. The Postal Service can

better match equipment and staffing to workload, improving productivity and reducing operating costs.

CHAMPIONING SMALL AND LARGE BUSINESSES.

We're making Priority Mail® more affordable and offering mailers more options and greater value. Experimental Priority Mail Presort discounts are measuring the costs of mailer presortation to determine if incentives would be attractive and beneficial to mailers.

TAKING PRIDE IN OUR PERFORMANCE. External First-Class Mail® delivery scores, as recorded by PricewaterhouseCoopers, showed that 94% of First-Class Mail destined for next-day delivery received overnight service.

DOING OUR PART. We received seven White House "Closing the Circle" awards for environmental achievement, bringing our total to 37 awards since the recognition began in 1995.

OPENING EYES. As part of our mission to bind the nation together, we partnered with the Dave Thomas Foundation to focus national attention on adoption. The Adoption stamp provided a vehicle for highlighting this important cause.

TURNING HEADS. For the second year in a row, *Fortune Magazine* ranked the Postal Service among the nation's top 20 employers for minorities.

BUILDING OUR BRAND. Our Pro Cycling Team, led by Lance Armstrong, delivered its third consecutive win at the world's foremost cycling event, the Tour de France.

DELIVERING FOR OUR NATION. In the wake of the September 11th tragedies, we maintained normal collection, processing and delivery of mail to the people and businesses of America.

SHAPING OUR FUTURE. At the request of Congress and the Comptroller General of the United States, we are developing a comprehensive Transformation Plan to position the Postal Service for long-term success in an increasingly dynamic market. The plan explores changes possible within our existing legislative framework, moderate legislative change to increase flexibility in key areas, and options for long-term, comprehensive changes to shape and support the Postal Service of the future.

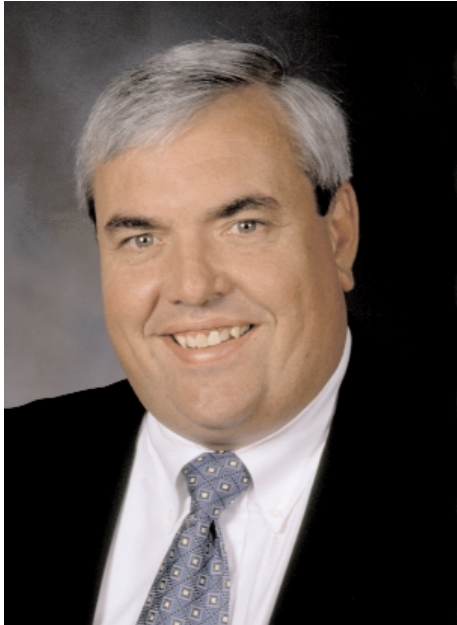


...OF THE UNITED STATES OF AMERICA...

a letter from the **POSTMASTER GENERAL/CEO** and

To the President, members of Congress,
postal employees and the American people.

This is a time unlike any other – both for



the Postal Service and
for America. It is a
time that calls for
strength, courage and
the determination to
move ahead. Above
all, it calls for unity.

Each of us in the
Postal Service is
working to deliver
secure, affordable and
universal mail service

to the people of America. That is our job and
we will continue to do it.

Yes, we face some challenges. A changing
economy and rising labor costs have driven up
our costs while they have reduced our revenue.

...AND TO THE REPUBLIC...

the CHAIRMAN, BOARD OF GOVERNORS

At the same time, our fixed costs have risen as we expanded to serve more than 1.7 million new addresses last year. A strong and focused response has helped us to reduce expenses, while maintaining consistently high service performance.

The Postal Service has been a reliable, trusted provider of communications for more than two centuries. It is a basic and fundamental service provided to the people of America by their government. It helps keep Americans in touch, and it is the hub of a \$900 billion mailing industry. We are working to keep this critical national asset strong and vibrant, today and far into the future.

From a business perspective, we are pursuing joint strategies of increasing revenue and managing costs. To help us accomplish these goals, we are completing an organizational restructuring that better aligns our

operations, marketing and sales activities. These changes are also bringing greater efficiency to our administrative and support functions.

Our combined efforts have resulted in the removal of more than \$900 million in costs from our system. We consider that quite an accomplishment.

Looking to the future, we are completing a comprehensive transformation plan that will help to position the Postal Service for continued success in an increasingly dynamic market. We are taking a three-step approach to this effort.

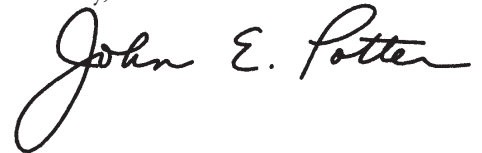
The first is the implementation of significant and positive actions to drive efficiency and performance within our existing legislative framework. The second is seeking modest legislative change that would bring modern management tools to postal operations.

The third is identifying options for long-term comprehensive changes that will define and support the role of the Postal Service well into the 21st century. Development of this plan has been among our highest priorities.

We cannot say often enough how proud we are of the 800,000 men and women of the United States Postal Service. Through unprecedented adversity, including acts of terrorism that resulted in the loss of two dedicated employees, they have continued to do their jobs and proudly upheld the principles of universal delivery service.

We are grateful to every postal employee, in every city, and in every town, for understanding the importance of our work in service to the American people. On behalf of the United States Postal Service, we thank them for helping us to stand united with the nation we serve.

Sincerely,



John E. Potter
Postmaster General and CEO



Robert F. Rider
Chairman, Board of Governors